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C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 000325

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E.O. 12958: DECL: 02/07/2018  
TAGS: [PREL](#) [PGOV](#) [ECON](#) [EFIN](#) [OECD](#) [JA](#)  
SUBJECT: SENIOR LDP POLITICIAN ON ELECTION PROSPECTS,  
FUKUDA'S LEADERSHIP

REF: TOKYO 305

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Classified By: CDA Joe Donovan per 1.4 (b/d)

Summary

1. (C) Senior ruling party politician Koichi Kato told Embassy Tokyo February 4 that poor economic management and a lack of leadership could force the Prime Minister to dissolve the Diet in the fall, with the ruling coalition likely to lose its 2/3 super-majority in the Lower House. During the current Diet session, major issues will continue to be legislation related to road taxes and related surcharges (including the provisional gasoline tax), pension issues and the rural-urban divide. The Japanese people are looking for vision and leadership, which PM Fukuda has yet to provide, Kato said. End Summary.

Poor Economic Management Could Force an Election

2. (C) Senior Liberal Democratic Party (LDP) Diet member Koichi Kato told Embassy Tokyo on February 4 that, while the current political situation "is not so bad," the real problem is Japan's economic situation. With the U.S. economy facing challenges, the Japanese economy is taking a hit. What the Japanese people are now demanding is strong leadership and the ability to manage the overall economy. Unfortunately, what they are getting is poor macroeconomic management and an overall inability to show strong economic leadership; symptomatic of this are the differences between the Ministry of Finance (MOF) and the Bank of Japan (BOJ) on interest rate policy, Kato asserted. While the BOJ is seeking to raise interest rates, MOF is trying to keep them down, ostensibly to protect businesses but in reality to prevent increased interest payments on government bonds. This conflict is playing out in the selection process for the new BOJ

Governor, with MOF wanting to keep interest rates low by ensuring one of their own, former MOF Vice Minister (and current BOJ Vice Governor) Toshio Muto, gets tapped, Kato explained.

13. (C) Given Japan's economic situation, PM Fukuda must be able to show both competence and confidence in dealing with Japan's economic problems, Kato continued. If not, "Fukuda will be forced to dissolve the Lower House in the fall." Facing an electorate concerned about the economy and other issues, it is more than likely that the ruling coalition would forfeit its 2/3 super-majority in the Lower House.

14. (C) Speculating on the election's possible outcome, Kato stated the LDP would probably get around 220 seats, with the opposition Democratic Party of Japan garnering 210 seats, the Komeito 30 seats, Social Democratic Party 5 seats, People's New Party 5 seats, Communist Party 4-5 seats, and Independents 5 seats. With a total of 250 seats, the ruling coalition would have the 241 seats necessary for a majority, but would lose the 2/3 Lower House majority needed to override the opposition controlled Upper House. This will force the ruling coalition to coordinate more closely with the opposition on policy, Kato said. (Perhaps in preparation for this possible outcome, Kato is leading a non-partisan delegation to Seoul, the opposition members of which were picked based on their ability to work with the ruling coalition on Korea issues -- see reftel.)

#### Diet Issues

15. (C) Kato expected the following three issues to figure prominently during the remainder of the Diet's current

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session:

a. Provisional gasoline tax. Kato predicted that, of six trillion yen in projected tax revenues from the road taxes and related surcharges, 400 billion yen would be used for environmental projection. Because pro-environment Diet members and activists have been asking for 100 to 150 billion yen annually for environmental initiatives, "400 billion yen should satisfy them," Kato said.

b. Pension issues. The inability of the government to match millions of pension contribution records with their rightful owners will continue to "smolder," Kato predicted.

c. Rural-urban divide. Domestic demand is too little, and the economic situation in Kato's district, Yamagata Prefecture, "is severe," he said. This is true for many other localities as well, and the people are unhappy with the growing rural-urban divide. Domestic demand would be higher and the economy stronger, he argued, if the labor market were in better shape and interest rates were higher. Companies are not passing profits on to the growing number of "non-regular" workers, he said (they earn only about 60% of career workers), and low interest rates have kept average Japanese from earning a return on the 1000 trillion yen of deposits they hold, Kato noted.

#### The PM's Leadership

16. (C) Japanese voters want to know where the nation is heading and what they are working for, Kato continued. They need words and actions from their leaders that they can understand and appreciate. Kato said that he had suggested this to PM Fukuda, and the PM had replied that he "would think about it." Kato did not think that Fukuda considers himself to be a caretaker PM, but nonetheless wonders why the PM has not yet offered the public the vision of his administration. For example, the PM could propose to make

Japan the most advanced science and technology nation in the world and, to promote this vision, visit science labs around the nation. Another option is to visit a "village festival", not in big cities such as Kyoto, but in a small village to underline the basis and enduring qualities of Japanese culture. "Japan worked hard to import American culture, but people are getting tired of it," Kato said. Kato offered that the PM's focus on basic Japanese culture would help to boost his popularity.

Comment

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17. (C) Koichi Kato is a former Secretary General of the party and former Prime Ministerial prospect. Prior to joining the Diet, he was a MOFA diplomat with experience in China. Long associated with the party's liberal and internationalist wing, Kato is considered a foreign policy expert. Having been returned to the Diet 12 times, Kato enjoys certain access and insider knowledge. However, since his highly publicized emotional meltdown after his failed attempt in 2000 to take over the Prime Ministership from Yoshiro Mori, his influence on day-to-day party affairs has been limited.  
DONOVAN